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FISCAL IMPACT STATEMENT

LS 6944

BILL NUMBER: HB 1431

NOTE PREPARED: Mar 22, 2005

BILL AMENDED: Mar 17, 2005

SUBJECT: Funding for Clean Water Indiana Program.

FIRST AUTHOR: Rep. Friend

BILL STATUS: As Passed Senate

FIRST SPONSOR: Sen. Weatherwax

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill reduces the amount that is annually appropriated from the Cigarette Tax Fund to the Department of Natural Resources (DNR) from 1/3 to 1/6 of the money in the fund. The bill annually deposits 1/6 of the money in the Cigarette Tax Fund to the Clean Water Indiana (CWI) Fund.

Effective Date: July 1, 2005.

Explanation of State Expenditures: Revenue and distributions of the Cigarette Tax Fund as well as estimates that would have resulted under the proposal are listed below.

Cigarette Tax Fund Revenues and Distributions (Current and Proposed)				
Year	Revenues	Current 1/3 to DNR	Proposed 1/6 to DNR	Proposed 1/6 to Clean Water Indiana
2001	\$27.5 M	\$9.2M	\$4.6M	\$4.6M
2002	\$27.7M	\$9.2M	\$4.6M	\$4.6M
2003	\$27.0M	\$9.0M	\$4.5M	\$4.5M
2004	\$22.6M	\$7.5M	\$3.7M	\$3.7M

For the 2002-2003 biennium, the DNR appropriation from the Cigarette Tax Fund was \$20.8M. (The appropriations differ from actual revenue collections listed above because appropriations were based on

revenue forecasts.) Of the total \$20.8M appropriation, about \$11.2M for the biennium, or around \$5.5M a year, was used to fund the Division of Soil Conservation. The remaining \$9.6M was appropriated for preventative maintenance of DNR properties.

For the 2004-2005 biennium, an appropriation of \$15M was made from the Cigarette Tax Fund to the DNR. Of this total, about \$11.3M for the biennium was used to fund the Division of Soil Conservation. The remaining \$3.7M was appropriated for preventative maintenance of DNR properties.

For the past two budget cycles, each year approximately \$920,000 of the Division's funding was distributed to soil and water conservation districts (each receiving around \$10,000), for a total expense of \$1,840,000 for each of the two past bienniums. The DNR Division of Soil Conservation administers the CWI funds under the direction of the State Soil Conservation Board. The Division is solely funded by Cigarette Tax revenue.

The Division of Soil Conservation maintained a staff of 68. The 2005 appropriation for personal services was \$3.65M with \$2M for other operating. Included within the \$2M expense for other operating is the annual \$920,000 in grants to local soil and water conservation districts.

Background: In 1999, the General Assembly created CWI to protect and enhance Indiana land, lakes, and rivers by reducing polluted storm water run-off in urban and rural areas from entering surface and ground water. Both rural and urban non-point source pollution include sediment, pathogens, pesticides, and nutrients. The program received no funding for the initial year. In 2001, \$1M from the Build Indiana Fund was appropriated for the program.

From November 2001 through September 2004, CWI projects with cost-sharing/incentive payments to land users have included installing water and sediment control structures, pasture renovations, livestock exclusion fencing, seeding critical areas, and providing for forested riparian buffers, vegetated field borders, and vegetated filter strips, among other projects. Land owners could also rent equipment to apply conservation practices and also receive technical assistance.

Explanation of State Revenues: The state could obtain up to \$8 in federal money for each \$1 state match as a part of the federal Conservation Reserve Enhancement Program (CREP). The USDA administers CREP, which is a voluntary program to make incentive payments to agricultural landowners for installing specific conservation practices. If the state appropriated 1/6 of the Cigarette Tax revenue, or an estimated \$3.7M based on last year's revenue, and if the state received the maximum \$8, the state could receive almost \$30M in federal dollars for the Clean Water Indiana Program.

Explanation of Local Expenditures: Several cities spend significant dollars to treat drinking water supplies to remove bacteria and reduce pesticide contamination to acceptable levels. It is possible that local expenditures could be reduced if the CWI program reduced water pollution and/or contamination.

Explanation of Local Revenues: Local units could receive additional revenues through the CWI program. Currently, all 92 districts receive a grant of approximately \$10,000 to implement local projects. In FY 2003, \$84M in requests for conservation programs went unfunded.

State Agencies Affected: Department of Natural Resources.

Local Agencies Affected: Soil and Water Conservation Districts.

Information Sources: IASWCD, DNR.

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